



FINANCIAL MANAGEMENT STRATEGIES

*Solutions Today for a Prosperous Tomorrow*

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## Foresight

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### Greetings!

As we all enjoy the last full month of summer vacation and family leisure time, this month I cover two very serious topics for the benefit of you and your loved ones. In honor of September as National Life Insurance Awareness Month, I share Part I of an excellent article on determining your life insurance needs, and insights on determining if you still have the right portfolio. Each month I share thoughts on various topics in the world of personal finance, investing, economics, and business through my writings below. May you find my musings informative, thought provoking, and enjoyable.

Thoughtfully,

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## Inspect Your Investments Now for Better Returns Later

The stock market is unsettled ... and perhaps its fluctuations are unsettling you. It's a stressful time for the economy and Wall Street, and you may be concerned about your investment portfolio given what's going on with, the U.S dollar & debt, oil prices, the real estate market, and rising unemployment figures. All of which means, it is the perfect time to review how your assets are invested, why you originally invested them this way, and what is your plan for the future.

**Is your portfolio balanced?** A truly balanced portfolio of diverse investments may help you ride out stock market turbulence. Stocks, bonds, and mutual funds (made up of some or both of them), are not the only asset allocation choices you have; and don't feel like you will be alone this fall if you decide to examine other investment options.

Fixed annuities, Treasury Inflation Protected Securities (TIPS), and other alternative investments become attractive to investors when the market turns volatile and inflation fears rise. Bonds tend to maintain their strength when stocks perform poorly; fixed annuities are simply contracts with insurance firms, not correlated

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to stock market performance (though certain types of annuities will promote that you can take advantage of stock market gains while preserving your principal). I will suggest that when considering annuities and alternative investments, be very mindful of restrictions, lock-up periods, surrender charges & liquidity, and keep your senses keen to separating good sales talk from "[good advice](#)".

TIPS are an investment that will provide us protection against inflation (and rising interest rates). The way that they work is the principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index. When a TIPS matures, you are paid the adjusted principal or original principal, whichever is greater\*. Alternative investments range from commodities like gold, copper, silver, and timber, to real estate investments (both direct ownership and pass-through like a REIT-Real Estate Investment Trust), and private partnerships that own interest in various unique consistent income generating opportunities. Again do your homework, ask questions and most importantly have a clear focus/plan at the outset of your search. For some investors, fixed-income mutual funds, dividend income funds and bond funds also have their adherents, though like TIPS an argument can be made for individuals to directly purchase these types of investments as opposed to owning a fund.

Last but not least, you have cash, though cash holdings haven't traditionally performed anywhere near the level of the stock markets. Albeit I will add that as a form of alternative investment cash in foreign currencies can be very appealing for many situations.

**Are you retired, or retiring?** If you are, this is all the more reason to actively review and very probably revise your portfolio as a proactive measure to create long-term benefit from the recent volatility. Frequently, before 2008 people who were approaching or enter retirement had portfolios that had not been thoroughly reviewed in years. Today many still have not methodically evaluated the asset allocation that seemed wise five years ago vs. changes that were made during the 2008-2009 turmoil, with "*the risk tolerance they have today*" so that their *portfolio makes sense tomorrow*.

Often, people in their fifties and sixties feel they need to accumulate more money for retirement, and that feeling leads them to accept more risk in their portfolio than they should. In the absence of working for yourself, or a salary, or depending on social security (which for most is not enough for retirement); you'll likely want consistent income and some growth, and therein lies the powerful appeal of a truly balanced investment approach of diverse holdings designed to manage risk while encouraging an adequate returns with some predictability.

**Why not take a look into your portfolio?** And see how it matches up with your risk tolerance and if your mix of investments (asset allocation) still makes sense. You may find that you have a mix of investments that matches your risk tolerance. Or, your portfolio may need minor or major adjustments. The right balance can help you insulate your assets to a greater degree against financial ups and downs, while giving you the comfort to ride through volatile periods like now.

\* - Source Treasury Direct

[http://www.treasurydirect.gov/indiv/products/prod\\_tips\\_glance.htm](http://www.treasurydirect.gov/indiv/products/prod_tips_glance.htm)

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## How Much Life Insurance Do I Really Need?

Some people equate life insurance with tragedy and death. In truth, life insurance is for the living. Without it, the sudden demise of a key breadwinner could leave a family stranded without the resources to maintain their lifestyle - or even retain their home.

Not so long ago, experts recommended that families carry a life insurance policy with a death benefit of between five and seven times their annual household income. Today, however, in light of rising house prices in many parts of the country and spiraling college costs, most advisors now recommend eight to 10 times income.

Unfortunately, most American families are underinsured. According to statistics from industry research and consulting firm LIMRA International, the average American household carries just \$126,000 in life insurance - approximately \$300,000 less than they actually need - and only 61% of adult Americans have life insurance protection, a decline from 70% in 1984.

### A Cornerstone of Sound Financial Planning

Financial experts generally consider life insurance to be a cornerstone of sound financial planning, for two key reasons. First, it can be a cost-effective way to provide for your loved ones after you are gone. And second, life insurance can be an important tool in the following ways:

1. **Income replacement** - For most people, their most valuable economic asset is their ability to earn a living. If you have dependents, then you need to consider what would happen to them if they could no longer rely on your income. A life insurance policy can also help supplement retirement income, which can be especially useful if the benefits of your surviving spouse or domestic partner will be reduced after your death.
2. **Pay outstanding debts and long-term obligations** - Without life insurance, your loved ones must shoulder burial costs, credit card debts, and medical expenses not covered by health insurance using out-of-pocket funds. The policy's death benefit might also be used to pay off a mortgage, supplement retirement savings, or fund college tuition.
3. **Estate planning** - The proceeds of a life insurance policy can be earmarked to pay estate taxes so that your heirs will not have to liquidate other assets to do so.
4. **Charitable contributions** - If you have a favorite charity, you can designate some or all of the proceeds from your life insurance to go to this organization.

**Next month, we will tell you the four steps you should take**

**to determine how much life insurance you need!**

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